

## Beat in estimates; deposits accretion remains key...

**About the stock:** HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. The bank has maintained superior return ratios compared to its peers resulting in premium valuations.

- Largest private sector bank with loan book of ₹ 15.0 lakh crore
- Consistent performance with +4% NIM and +15% RoE in past many years

### Q3FY23 Results: Beat NII & PAT estimates; asset quality steady.

- Healthy loan growth at 19.5% YoY to ₹ 15.06 lakh crore; deposits up 19.9%
- NII up 24.6% YoY, NIMs steady QoQ at 4.1%, C/I at 39.6% vs. 37.0% YoY lead by increased opex and staff cost
- Credit cost declined to 0.74%, PAT up 18.5% YoY at ₹ 12259 crore
- GNPA & NNPA steady at 1.23% and 0.33% QoQ, respectively

**What should investors do?** HDFC Bank's share price has grown more than 25% in the past three years. Building of distribution capabilities and business growth to remain buoyant though merger with HDFC Ltd to remain in focus in the near term.

- We remain positive and retain our **BUY** rating on the stock

**Target Price and Valuation:** HDFC Bank is expected to deliver higher than industry growth along with RoA of ~2% in FY25E. Rolling to FY25E, we value HDFC Bank at ~2.8x FY25E ABV & ₹ 50 for subsidiaries and revise our target price from ₹ 1750 to ₹ 1920/share.

### Key triggers for future price performance:

- Change in asset mix and rate transmission to keep margins steady
- Deposit accretion will remain in focus though the management indicated that it will be supported by branch expansion and relationship building
- Steady asset quality and enough provision buffer provides comfort. Physical/digital capabilities to keep the bank ahead of its competitors

### Alternate Stock Idea: Apart from HDFC Bank, we also like Axis Bank.

- Strong liabilities franchise, adequate capitalisation and healthy provision buffer to aid business growth as well as earnings trajectory
- BUY with a target price of ₹ 1000



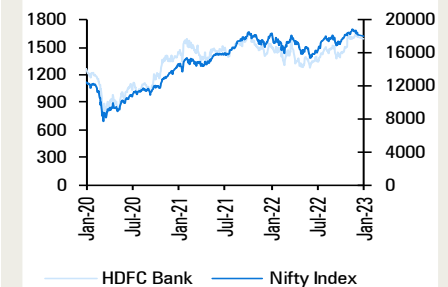
#### Particulars

| Particulars           | Amount         |
|-----------------------|----------------|
| Market Capitalisation | ₹ 892754 crore |
| 52 week H/L           | 1721/1271      |
| Networth              | ₹ 260399 crore |
| Face value            | ₹ 1            |

#### Shareholding pattern

| (in %)   | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 25.8   | 25.8   | 25.8   | 25.7   | 25.6   |
| FII      | 38.2   | 37.5   | 35.6   | 32.3   | 32.1   |
| DII      | 22.5   | 23.0   | 24.6   | 27.1   | 27.5   |
| Others   | 13.4   | 13.8   | 14.1   | 14.9   | 14.7   |

#### Price Chart



#### Recent Event & Key risks

- Total provisions at 166% of reported GNPA level
- **Key Risk:** 1) Slower growth in deposits accretion 2) NIMs may witness some pressure in the near term

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#### Key Financial Summary

| ₹ Crore | FY20   | FY21   | FY22   | 3 year CAGR (FY19-22) | FY23E  | FY24E  | FY25E   | 3 year CAGR (FY22-25E) |
|---------|--------|--------|--------|-----------------------|--------|--------|---------|------------------------|
| NII     | 56,186 | 64,880 | 72,010 | 14%                   | 85,250 | 99,540 | 116,816 | 27%                    |
| PPP     | 48,750 | 57,362 | 64,077 | 17%                   | 73,510 | 85,823 | 100,774 | 25%                    |
| PAT     | 26,257 | 31,117 | 36,961 | 21%                   | 43,633 | 51,939 | 61,508  | 29%                    |
| ABV (₹) | 305.4  | 361.3  | 425.0  |                       | 484.8  | 556.8  | 658.6   |                        |
| P/E     | 33.4   | 28.3   | 20.4   |                       | 20.3   | 17.1   | 14.4    |                        |
| P/ABV   | 5.2    | 4.4    | 3.2    |                       | 3.3    | 2.9    | 2.4     |                        |
| RoA     | 1.9    | 1.9    | 1.9    |                       | 2.0    | 2.0    | 2.0     |                        |
| RoE     | 16.4   | 16.6   | 16.7   |                       | 16.9   | 17.5   | 17.7    |                        |

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Beat estimates on NII & PAT front

- HDFC Bank beat our estimates on the NII and PAT front as business growth continued its healthy traction. Asset quality was steady QoQ with GNPA and NNPA ratio at 1.23% and 0.33%, respectively
- Net interest income (NII) was up 24.6% YoY and 9.4% QoQ to ₹ 22987 crore (ahead of our estimates of ₹ 21834 crore), aided by healthy loan growth of 19.5% YoY and steady NIMs at 4.1% on a sequential basis. Other income increased 11.9% QoQ, 3.9% YoY, mainly driven by fee & commission income and forex income, which was up 4.3% QoQ (19% YoY) and 13.3% QoQ (13% YoY) at ₹ 6052 crore and ₹1074.1 crore, respectively
- Opex was up 26.5% YoY and 11% QoQ, whereas C/I ratio was steady at 39.6% (vs. 37% in Q3FY22). Provisions declined both QoQ and YoY at ₹ 2806.4 crore, resulting in credit cost of 0.74% vs. 0.87% in Q2FY23 (0.94% in Q3FY22). Net profit for the quarter beat our estimates at ₹ 12259.5 crore up 18.5% YoY and 15.6% QoQ (vs. our estimate of ₹ 12021.4 crore). Strong PAT resulted in highest RoA at 2.24% (annualised)
- Loan growth for the quarter remained healthy at 19.5% YoY and 1.8% QoQ to ₹ 15.06 lakh crore though a bit of moderation was witnessed compared to previous quarterly growth trend. Retail loans saw 21.4% YoY (5% QoQ) increase while commercial and rural segment saw healthy uptick of 30.2% YoY (5% QoQ). Corporate and wholesale book was up 20.3% YoY (~1% QoQ). Deposit accretion was at 19.9% YoY to ₹ 17.3 lakh crore. CASA deposits reported growth of 12.0% YoY. CASA ratio moderated slightly QoQ at 44% (vs. 45.4% in Q2FY23)
- The bank's subsidiary HDB Financial services saw a slight improvement in asset quality as stage-3 assets were down from 4.88% to 3.73% QoQ. Net profit for HDB grew 65% YoY at ₹ 501 crore. Broking business HDFC Securities saw 6% YoY decline in total income at ₹ 504 crore while net profit was down 21% YoY to ₹ 203 crore

### Q3FY23 Earnings Conference Call highlights

- Retail deposits comprise ~85% of total deposits. Within CASA deposits, retail CASA grew 14% YoY and retail current account (CA) (~70% of total CA deposits) grew 14% YoY while wholesale CA deposits de-grew 4% YoY. The management will continue to focus on granular deposit accretion, which will be partly aided by branch addition in the near term
- Expect healthy credit demand from NBFCs, telecom, PSU and infrastructure segments to sustain
- MTM income during the quarter was mainly from AFS investments vs. overall MTM losses in the previous quarter
- Other interest income was partly led by income from RIDF and ~6 bps was from interest on IT refund (~₹ 300 crore)
- Margins may witness some pressure in the near term. However, it will remain in a historical range
- Employee cost was led by addition in branches, cost of Esop (~ ₹ 250 crore). Most of the staff addition will be done on customer facing roles (currently ~84%)
- Out of 1.23% GNPA ~17 bps is standard while slippage ratio during the quarter was 42 bps (₹ 6600 crore). Recoveries and upgrades were at ₹ 3100 crore (~31 bps) and sale of NPAs ~₹ 200 crore. Restructuring was at ~42 bps (₹ 6400 crore)
- PCR on stage 3 book was at 57% while PCR on secured and unsecured book was at 64% and 85%, respectively
- The bank has acquired 1.2 mn cards during the quarter vs. slightly lower than ~1 mn in Q2FY23
- Digital platforms are adding 80000 merchants per month

| HDFC Bank - ESG Disclosure Score* |             |             |             |
|-----------------------------------|-------------|-------------|-------------|
| ESG Disclosure Score              |             |             |             |
| Score                             | FY20        | FY21        | FY22        |
| Environmental                     | 40.1        | 40.1        | 40.1        |
| Social                            | 27.9        | 51.6        | 56.7        |
| Governance                        | 92.4        | 79.8        | 92.4        |
| <b>Overall ESG Score</b>          | <b>53.5</b> | <b>57.2</b> | <b>63.1</b> |

Source: Bloomberg; ICICI Direct Research \* score ranges from 0-100 with a high score indicating higher ESG disclosure

- The bank added 684 branches during the quarter while gold loan processing is offered from 3938 branches
- LCR was ~113% during the quarter
- Update on merger – The NCLT hearing is on January 27, 2023

## Peer comparison

Exhibit 1: Peer Comparison

| Sector / Company      | CMP   |       |        | M Cap<br>(₹ Bn) | EPS (₹) |       |       |       | P/E (x) |       |       |       | P/ABV (x) |       |       |       | RoE (%) |       |       |       |
|-----------------------|-------|-------|--------|-----------------|---------|-------|-------|-------|---------|-------|-------|-------|-----------|-------|-------|-------|---------|-------|-------|-------|
|                       | (₹)   | TP(₹) | Rating |                 | FY21    | FY22E | FY23E | FY24E | FY21    | FY22E | FY23E | FY24E | FY21      | FY22E | FY23E | FY24E | FY21    | FY22E | FY23E | FY24E |
| Axis Bank (AXIBAN)    | 934   | 1,000 | Buy    | 2,872           | 21.5    | 42.4  | 66.1  | 72.9  | 43      | 22.0  | 14.1  | 12.8  | 3.0       | 2.7   | 2.3   | 2.1   | 7.1     | 12.0  | 16.3  | 16.2  |
| Federal Bank (FEDBAN) | 138   | 155   | Buy    | 292             | 8.0     | 9.0   | 12.0  | 14.6  | 17      | 15.4  | 11.5  | 9.5   | 1.9       | 1.7   | 1.5   | 1.4   | 10.4    | 10.8  | 12.8  | 13.9  |
| HDFC Bank (HDFBAN)    | 1,600 | 1,920 | Buy    | 8,927           | 93.7    | 93.7  | 93.7  | 93.7  | 17      | 17.1  | 17.1  | 17.1  | 2.4       | 2.4   | 2.4   | 2.4   | 17.7    | 17.7  | 17.7  | 17.7  |
| IndusInd Bank (INDBA) | 1,233 | 1,450 | Buy    | 956             | 36.7    | 59.5  | 91.3  | 107.0 | 34      | 20.7  | 13.5  | 11.5  | 2.3       | 2.1   | 1.8   | 1.6   | 7.3     | 10.1  | 13.9  | 14.4  |
| Kotak Bank (KOTMAH)   | 1,779 | 2,250 | Buy    | 3,535           | 35.1    | 43.0  | 48.8  | 57.0  | 50.6    | 41.4  | 36.5  | 31.2  | 5.8       | 5.0   | 4.4   | 3.8   | 12.4    | 12.6  | 12.5  | 12.9  |

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

|                          | Q3FY23   | Q3FY23E  | Q3FY22   | YoY (%) | Q2FY23   | QoQ (%) | Comments   |
|--------------------------|----------|----------|----------|---------|----------|---------|--|
| NII                      | 22,987.8 | 21,834.9 | 18,443.5 | 24.6    | 21,021.2 | 9.4     | Partly driven by interest on I-T refund of ₹ 300 crore |
| NIM (%)                  | 4.1      | 4.0      | 4.1      | 0.0     | 4.1      | 0.0     |  |
| Other Income             | 8,499.8  | 8,687.1  | 8,183.6  | 3.9     | 7,595.6  | 11.9    | Primary driven by growth in fee & comission income     |
| Net Total Income         | 31,487.7 | 30,522.0 | 26,627.0 | 18.3    | 28,616.7 | 10.0    |  |
| Staff cost               | 4,126.2  | 3,627.6  | 3,154.4  | 30.8    | 3,523.8  | 17.1    |  |
| Other Operating Expenses | 8,337.4  | 7,701.2  | 6,696.7  | 24.5    | 7,700.7  | 8.3     | C/I ratio steady at 39.6% on sequential basis          |
| PPP                      | 19,024.1 | 19,193.3 | 16,776.0 | 13.4    | 17,392.2 | 9.4     |  |
| Provision                | 2,806.4  | 3,164.7  | 2,994.0  | -6.3    | 3,240.1  | -13.4   | Credit cost further moderated to 0.74%                 |
| PBT                      | 16,217.6 | 16,028.6 | 13,782.0 | 17.7    | 14,152.0 | 14.6    |  |
| Tax                      | 3,958.1  | 4,007.1  | 3,439.8  | 15.1    | 3,546.3  | 11.6    |  |
| PAT                      | 12,259.5 | 12,021.4 | 10,342.2 | 18.5    | 10,605.8 | 15.6    | Beat estimates led by strong business growth           |

Key Metrics

|          |           |           |           |      |           |     |  |
|----------|-----------|-----------|-----------|------|-----------|-----|--|
| GNPA     | 18,764    | 18,484    | 16,014    | 17.2 | 18,301    | 2.5 |  |
| NNPA     | 5,024     | 4,931     | 4,677     | 7.4  | 4,883     | 2.9 |  |
| Advances | 1,506,809 | 1,507,000 | 1,260,863 | 19.5 | 1,479,873 | 1.8 | Growth driven by retail and commercial segment |
| Deposits | 1,733,204 | 1,733,500 | 1,445,918 | 19.9 | 1,673,408 | 3.6 | CASA up 12% YoY                                |

Source: Company, ICICI Direct Research

Exhibit 3: Loan book break up

| (₹ crore)                         | Q3FY22           | Q4FY22           | Q1FY23           | Q2FY23           | Q3FY23           |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| Retail loans                      | 5,05,751         | 5,31,768         | 5,57,881         | 5,80,548         | 6,06,601         |
| Personal                          | 1,33,399         | 1,40,127         | 1,47,928         | 1,54,820         | 1,64,641         |
| Auto                              | 96,426           | 1,00,463         | 1,04,003         | 1,08,788         | 1,12,442         |
| Home                              | 78,992           | 83,056           | 88,249           | 93,050           | 97,593           |
| Payment products                  | 73,305           | 76,757           | 80,142           | 81,966           | 83,314           |
| LAP                               | 57,736           | 62,248           | 65,116           | 69,313           | 72,436           |
| Two Wheeler                       | 9,288            | 9,288            | 9,195            | 9,597            | 9,759            |
| Gold loans                        | 8,198            | 8,350            | 8,808            | 9,434            | 10,042           |
| Other retail                      | 48,407           | 51,479           | 54,440           | 53,580           | 56,374           |
| Commercial Bank & Rural (ex Agri) | 3,84,195         | 4,20,191         | 4,36,485         | 4,74,462         | 5,02,356         |
| Agriculture                       | 56,031           | 64,545           | 61,579           | 70,278           | 70,912           |
| Corporate and Other wholesale     | 3,26,182         | 3,64,011         | 3,63,939         | 3,96,779         | 3,92,254         |
| IBPC/BRDS                         | -                | -                | (11,709)         | (28,815)         | (51,621)         |
| <b>Total</b>                      | <b>12,72,160</b> | <b>13,80,515</b> | <b>14,08,175</b> | <b>14,93,252</b> | <b>15,20,502</b> |

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

| (₹ Crore)            | FY23E    |          |          | FY24E    |          |          | FY25E      |
|----------------------|----------|----------|----------|----------|----------|----------|------------|
|                      | Old      | New      | % Change | Old      | New      | % Change | Introduced |
| Net Interest Income  | 83,953.5 | 85,250.0 | 1.5      | 99,854.8 | 99,539.9 | -0.3     | 116,816.2  |
| Pre Provision Profit | 72,213.2 | 73,509.8 | 1.8      | 86,138.1 | 85,823.2 | -0.4     | 100,774.3  |
| NIM calculated (%)   | 4.0      | 4.0      | 2 bps    | 4.0      | 4.0      | 4 bps    | 4.1        |
| PAT                  | 42,667.4 | 43,633.4 | 2.3      | 52,155.9 | 51,938.9 | -0.4     | 61,507.8   |
| ABV (₹)              | 483.0    | 484.8    | 0.4      | 555.4    | 556.8    | 0.3      | 658.6      |

Source: Company, ICICI Direct Research

Exhibit 5: Assumption

|                          | Current  |          |          | Earlier  |          |
|--------------------------|----------|----------|----------|----------|----------|
|                          | FY23E    | FY24E    | FY25E    | FY23E    | FY24E    |
| Credit growth (%)        | 18.6     | 18.7     | 18.0     | 17.3     | 19.2     |
| Deposit Growth (%)       | 17.0     | 17.7     | 17.8     | 16.4     | 17.7     |
| CASA ratio (%)           | 50.2     | 49.7     | 49.1     | 46.0     | 49.7     |
| NIM Calculated (%)       | 4.0      | 4.0      | 4.1      | 4.1      | 4.0      |
| Cost to income ratio (%) | 37.4     | 37.0     | 36.5     | 36.6     | 36.9     |
| GNPA (₹ crore)           | 17,764.4 | 19,691.4 | 24,240.9 | 17,937.7 | 19,699.0 |
| NNPA (₹ crore)           | 6,344    | 8,341    | 13,438   | 7,118    | 8,401    |
| Slippage ratio (%)       | 1.3      | 1.2      | 1.3      | 1.3      | 1.2      |
| Credit cost (%)          | 0.9      | 0.8      | 0.8      | 0.9      | 0.8      |

Source: Company, ICICI Direct Research

## Financial summary

| Exhibit 6: Profit and loss statement |         |        |        |        |
|--------------------------------------|---------|--------|--------|--------|
|                                      | ₹ crore |        |        |        |
| (Year-end March)                     | FY22    | FY23E  | FY24E  | FY25E  |
| Interest Earned                      | 127753  | 156586 | 184186 | 215365 |
| Interest Expended                    | 55744   | 71336  | 84646  | 98549  |
| NII                                  | 72010   | 85250  | 99540  | 116816 |
| Growth (%)                           | 11.0    | 18.4   | 16.8   | 17.4   |
| Non Interest Income                  | 29510   | 32210  | 36716  | 41971  |
| Total Income                         | 101519  | 117460 | 136256 | 158787 |
| Employee cost                        | 12032   | 14676  | 17089  | 20022  |
| Other operating Exp.                 | 25410   | 29274  | 33343  | 37991  |
| PPP                                  | 64077   | 73510  | 85823  | 100774 |
| Provisions                           | 15062   | 14942  | 16107  | 18214  |
| PBT                                  | 49015   | 58568  | 69717  | 82561  |
| Taxes                                | 12054   | 14935  | 17778  | 21053  |
| Net Profit                           | 36961   | 43633  | 51939  | 61508  |
| Growth (%)                           | 18.8    | 18.1   | 19.0   | 18.4   |
| EPS                                  | 66.7    | 78.7   | 93.7   | 110.9  |

Source: Company, ICICI Direct Research

| Exhibit 7: Key Ratios       |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March)            | FY22  | FY23E | FY24E | FY25E |
| Valuation                   |       |       |       |       |
| No. of Equity Shares        | 554.6 | 554.6 | 554.6 | 554.6 |
| EPS (₹)                     | 66.7  | 78.7  | 93.7  | 110.9 |
| BV (₹)                      | 433.0 | 496.2 | 571.9 | 682.8 |
| ABV (₹)                     | 425.0 | 484.8 | 556.8 | 658.6 |
| P/E                         | 20.4  | 20.3  | 17.1  | 14.4  |
| P/BV                        | 3.1   | 3.2   | 2.8   | 2.3   |
| P/ABV                       | 3.2   | 3.3   | 2.9   | 2.4   |
| Yields & Margins (%)        |       |       |       |       |
| Net Interest Margins        | 4.0   | 4.0   | 4.0   | 4.1   |
| Yield on avg earning assets | 7.0   | 7.4   | 7.5   | 7.5   |
| Avg. cost on funds          | 3.5   | 3.8   | 3.9   | 3.9   |
| Avg. cost of deposits       | 3.4   | 3.8   | 3.9   | 3.9   |
| Yield on average advances   | 7.9   | 8.4   | 8.5   | 8.4   |
| Quality and Efficiency (%)  |       |       |       |       |
| Cost / Total net income     | 36.9  | 37.4  | 37.0  | 36.5  |
| Credit/Deposit ratio        | 87.8  | 89.0  | 89.8  | 90.0  |
| GNPA                        | 1.2   | 1.1   | 1.0   | 1.1   |
| NNPA                        | 0.3   | 0.4   | 0.4   | 0.6   |
| ROE                         | 16.7  | 16.9  | 17.5  | 17.7  |
| ROA                         | 1.9   | 2.0   | 2.0   | 2.0   |

Source: Company, ICICI Direct Research

| Exhibit 8: Balance sheet       |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|
|                                | ₹ crore |         |         |         |
| (Year-end March)               | FY22    | FY23E   | FY24E   | FY25E   |
| Sources of Funds               |         |         |         |         |
| Capital                        | 555     | 555     | 555     | 555     |
| Reserves and Surplus           | 239538  | 274625  | 316582  | 378090  |
| Networth                       | 240093  | 275180  | 317137  | 378645  |
| Deposits                       | 1559217 | 1823527 | 2146981 | 2528100 |
| Borrowings                     | 184817  | 198371  | 213291  | 229745  |
| Other Liabilities & Provisions | 84407   | 91276   | 99083   | 107995  |
| Total                          | 2068535 | 2388354 | 2776492 | 3244485 |
| Applications of Funds          |         |         |         |         |
| Fixed Assets                   | 6084    | 6760    | 7261    | 7844    |
| Investments                    | 455539  | 503661  | 576213  | 659617  |
| Advances                       | 1368821 | 1623401 | 1927067 | 2274740 |
| Other Assets                   | 85765   | 95270   | 98439   | 125567  |
| Cash with RBI & call money     | 152327  | 159263  | 167513  | 176716  |
| Total                          | 2068535 | 2388354 | 2776492 | 3244485 |

Source: Company, ICICI Direct Research

| Exhibit 9: Key ratio (%) |      |       |       |       |
|--------------------------|------|-------|-------|-------|
| (Year-end March)         | FY22 | FY23E | FY24E | FY25E |
| Total assets             | 18.4 | 15.5  | 16.3  | 16.9  |
| Advances                 | 20.8 | 18.6  | 18.7  | 18.0  |
| Deposits                 | 16.8 | 17.0  | 17.7  | 17.8  |
| Total Income             | 7.7  | 20.1  | 17.0  | 16.5  |
| Net interest income      | 11.0 | 18.4  | 16.8  | 17.4  |
| Operating expenses       | 14.4 | 17.4  | 14.7  | 15.0  |
| Operating profit         | 11.7 | 14.7  | 16.8  | 17.4  |
| Net profit               | 18.8 | 18.1  | 19.0  | 18.4  |
| Net worth                | 17.9 | 14.6  | 15.2  | 19.4  |
| EPS                      | 18.1 | 18.1  | 19.0  | 18.4  |

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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